

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 59131

**FERRY COUNTY, WASHINGTON**

January 1, 1996 Through December 31, 1996

Issue Date: May 29, 1998

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**FERRY COUNTY, WASHINGTON**  
**January 1, 1996 Through December 31, 1996**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Board of Commissioners  
Ferry County  
Republic, Washington

We have audited the financial statements, as listed in the table of contents, of Ferry County, Washington, as of and for the fiscal year ended December 31, 1996, and have issued our report thereon dated December 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Ferry County is the responsibility of the County's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the County's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the County complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the County's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the County and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

We noted matters involving noncompliance with laws and regulations related to federal financial assistance which were reported to the County's management in our reports on general requirements and specific compliance for nonmajor program transactions and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the Board of Commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution

is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 16, 1997

FERRY COUNTY, WASHINGTON  
January 1, 1996 Through December 31, 1996

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**Independent Auditor's Report On Internal Control Structure  
At The Financial Statement Level**

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Board of Commissioners  
Ferry County  
Republic, Washington

We have audited the financial statements of Ferry County, Washington, as of and for the fiscal year ended December 31, 1996, and have issued our report thereon dated December 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the County is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the County, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in

relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

We noted matters involving compliance with laws and regulations related to federal financial assistance which were reported to the County's management in our reports on general requirements and specific compliance for nonmajor program transactions and in the Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the Board of Commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 16, 1997

**FERRY COUNTY, WASHINGTON**  
**January 1, 1996 Through December 31, 1996**

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**Independent Auditor's Report On Financial Statements And Additional  
Information**

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Board of Commissioners  
Ferry County  
Republic, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of Ferry County, Washington, for the fiscal year ended December 31, 1996. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the County prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of Ferry County for the fiscal year ended December 31, 1996, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

The special purpose districts listed in the supporting schedule are audited as a part of the trust and agency funds of Ferry County. The districts' recorded transactions are an integral part of the county's financial statements for the fiscal year ended December 31, 1996.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 16, 1997, on our consideration of the County's internal control structure and a report dated December 16, 1997, on its compliance with laws and regulations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 16, 1997



**FERRY COUNTY, WASHINGTON**  
**January 1, 1996 Through December 31, 1996**

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**Additional Information Regarding Audits Of Special Purpose Districts Included In  
Trust And Agency Funds**

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The State Auditor's Office has established audit policies for special purpose districts associated with the county's financial statements. These audit policies are designed to reflect low audit risk assessment, minimize audit costs, and apply auditing procedures that are appropriate to the district's size and other factors. For the purpose of these policies, special purpose districts are defined as most separate municipal corporations which use the county auditor and treasurer as ex-officio officers. Special purpose districts include:

- Unclassified Public Utility Districts
- Public Hospital Districts
- Unclassified Port Districts
- Cemetery Districts
- Ferry Districts (except county ferries)
- Fire Protection Districts
- Park and Recreation Districts
- Mosquito Control Districts
- Weed Control Districts
- Animal Pest Control Districts
- Ambulance and First Aid Districts
- Irrigation Districts
- TV Reception District
- Diking Districts
- Flood Control Districts
- Drainage Districts
- Diking and Drainage Districts
- Water Districts
- Sewer Districts
- Water/Sewer Districts

These policies DO NOT apply to school districts, airport districts, road improvement districts, county road and bridge service districts, utility local improvement districts, local improvement districts, metropolitan park districts, public transportation benefit areas, housing authorities, solid waste collection districts, county rail districts, lake management districts, or any economic or industrial development districts.

Classifications

Special purpose districts are classified into three categories determined by the amount and source of revenues. These categories define audit planning and scheduling, auditing procedures and levels of testing, billing procedures, and audit reporting requirements.

### Category 1 Districts

All special purpose districts, regardless of type, which either:

- a. Had more than \$500,000 of revenues in any year being audited, or
- b. Received \$25,000 or more of direct or indirect federal assistance in any year being audited.

Category 1 districts are audited individually and each receives its own audit report. The Category 1 district associated with the county's financial statements is:

Hospital District No. 1 of Ferry County

### Category 2 Districts

All special purpose districts which had total revenues of at least \$25,000 but not more than \$500,000 in any year being audited and which received less than \$25,000 in direct and indirect federal assistance. Additionally, the following types of districts will be considered as Category 2 even if their annual revenues are less than \$25,000:

Public Utility Districts  
Public Hospital Districts  
Irrigation Districts  
Water Districts  
Sewer Districts  
Water/Sewer Districts  
Port Districts

These types of districts have greater audit risks than other types of districts of equivalent size because they typically received a significant amount of their revenues from locally generated sources rather than through taxes and assessments.

Category 2 districts are audited as a group using limited auditing procedures. A single, combined audit report is issued for the Category 2 districts. The Category 2 districts associated with the county's financial statements are:

EMS District  
Ferry/Okanogan County Fire District No. 13  
Ferry/Okanogan County Fire District No. 14  
Fire District No. 3  
Curlew Water District  
Inchelium Water District  
Curlew Lake Sewer District No. 1

### Category 3 Districts

All special purpose districts which had total revenues of less than \$25,000 in any year being audited except those districts specifically listed in Category 2.

Category 3 districts are audited only at the county level using auditing procedures appropriate for a trust and agency fund. No separate audit reports are issued for Category 3 districts. The Category 3 districts associated with the county's financial statements are:

Mosquito Control District  
Parks and Recreation District No. 2

FERRY COUNTY, WASHINGTON  
January 1, 1996 Through December 31, 1996

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Independent Auditor's Report On Supplementary Information  
Schedule Of Federal Financial Assistance

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Board of Commissioners  
Ferry County  
Republic, Washington

We have audited the financial statements of Ferry County, Washington, as of and for the fiscal year ended December 31, 1996, and have issued our report thereon dated December 16, 1997. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Ferry County taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 16, 1997

**FERRY COUNTY, WASHINGTON**  
**January 1, 1996 Through December 31, 1996**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Board of Commissioners  
Ferry County  
Republic, Washington

We have audited the financial statements of Ferry County, Washington, as of and for the fiscal year ended December 31, 1996, and have issued our report thereon dated December 16, 1997.

We have applied procedures to test the County's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1996:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements, including subrecipient monitoring

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Relocation assistance and real property acquisition
- Federal financial reports

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the County had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the Board of Commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution

is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 16, 1997

FERRY COUNTY, WASHINGTON  
January 1, 1996 Through December 31, 1996

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**Independent Auditor's Report On Compliance With Specific Requirements  
Applicable To Nonmajor Federal Financial Assistance Program Transactions**

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Board of Commissioners  
Ferry County  
Republic, Washington

We have audited the financial statements of Ferry County, Washington, as of and for the fiscal year ended December 31, 1996, and have issued our report thereon dated December 16, 1997.

In connection with our audit of the financial statements of the County and with our consideration of the County's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal years ended December 31, 1996. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures, eligibility of the individuals or groups to whom the County provides federal financial assistance, and matching requirements that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that Ferry County had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed an immaterial instance of noncompliance with those requirements, which is described in the accompanying Schedule of Federal Findings and Schedule of Questioned Costs.

This report is intended for the information of management and the Board of Commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 16, 1997

**FERRY COUNTY, WASHINGTON**  
**January 1, 1996 Through December 31, 1996**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Board of Commissioners  
Ferry County  
Republic, Washington

We have audited the financial statements of Ferry County, Washington, as of and for the fiscal year ended December 31, 1996, and have issued our report thereon dated December 16, 1997.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the County's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated December 16, 1997.

The management of the County is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of

changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Purchasing and receiving
  - Payroll
- **General Requirements**
  - Political activity
  - Davis-Bacon Act
  - Civil rights
  - Cash management
  - Allowable costs/cost principles
  - Drug-Free Workplace Act
  - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
  - Types of services
  - Eligibility
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Cash receipts
  - Cash disbursements
  - Receivables
  - Accounts payable
  - Inventory control
  - Property, plant, and equipment
  - General ledger
- **General Requirements**
  - Relocation assistance and real property acquisition
  - Federal financial reports

During the fiscal year ended December 31, 1996, the County had no major federal financial assistance programs and expended 56 percent of its total federal financial assistance under the following nonmajor federal financial assistance programs: Federal Forest Yield (CFDA 10.665), Substance Abuse (CFDA 93.902), Federal Highway Administration (CFDA 20.205) and BLM-PILT (15.230).



We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor programs. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the Board of Commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

December 16, 1997

FERRY COUNTY, WASHINGTON  
January 1, 1996 Through December 31, 1996

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Schedule Of Federal Findings

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1. The County should comply with federal regulations.

During our audit of the Public Safety Partnership and Community Policing Services MORE Grant (CFDA 16.710), we noted that the County did not comply with federal requirements.

The County purchased 10 laptop computers, the related software, 10 portable printers and two desktop printers. All of these expenditures were charged to the grant.

Per the grant agreement, the County was only authorized to purchase eight laptop computers and the related hardware and software. The additional \$7,416 worth of grant expenditures were unallowable costs. See the accompanying Schedule of Questioned Costs.

The County provided local matching funds for 25 percent of the grant's equipment/technology expenditures.

Per the grant agreement, the County was supposed to provide local matching funds for 35 percent of the grant's equipment/technology expenditures. The County failed to meet its local match requirement by \$3,865.

This situation occurred because grant requirements were misunderstood and grant expenditures were not properly monitored.

The County's noncompliance with federal requirements could result in the loss of grant funds.

We recommend the County contact the U.S. Department of Justice to determine the amount of any repayment required. We also recommend the County obtain grant training and establish procedures to ensure compliance with federal requirements.

Auditee's Response

*The County contacted the Department of Justice and explained what happened. If any further action was required, the Department would contact the County. County employees will also attend upcoming grant training.*

Auditor's Concluding Remarks

The County appears to have adequately addressed our concerns. We will review any resolution of this issue during the next audit.

We wish to thank County officials and personnel for their assistance and cooperation throughout the audit.

FERRY COUNTY, WASHINGTON  
January 1, 1996 Through December 31, 1996

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Schedule Of Questioned Costs

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<u>Grant</u>	<u>Costs Questioned</u>	<u>Explanation/ Reference</u>
Public Safety Partnership and Community Policing Services MORE Grant CFDA 16.710	\$7,416	See Federal Finding 1

FERRY COUNTY, WASHINGTON  
January 1, 1996 Through December 31, 1996

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Status Of Prior Findings

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The finding contained in the prior audit report was resolved as follows:

1. Charges to federal programs should comply with federal regulations.

*Resolution: The County is basing reimbursement requests on actual COPS grant expenditures and is reimbursing its recipient for 75 percent. In addition, the questioned costs were repaid to the U.S. Department of Justice.*

FERRY COUNTY, WASHINGTON  
January 1, 1996 Through December 31, 1996

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Status Of Prior Questioned Costs

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<u>Grants</u>	<u>Audit Report Year</u>	<u>Costs Questioned</u>	<u>Current Status</u>	
			<u>Unresolved</u>	<u>Resolved</u>
Public Safety Partnership and Community Policing Grants CFDA 16.71	1995	\$7,276		x